

PUGET SOUND EDUCATIONAL SERVICE DISTRICT
King County, Washington
September 1, 1993 Through August 31, 1994

Schedule Of Federal Findings

1. Puget Sound Educational Service District Management Should Monitor Awards To Subrecipients

Puget Sound Educational Service District (PSESD) management is not consistently obtaining and/or reviewing subrecipients' audit reports, and requiring if necessary, corrective action in a timely manner.

The PSESD Department of Special Services administers the Handicap program (CFDA 84.027), along with other federal programs. In addition, the PSESD Department of Early Childhood Education administers the Head Start program (CFDA 93.600), along with other federal programs. To accomplish the objectives of these programs, Special Services and Early Childhood Education officials contract with various organizations. The contracts with the organizations require an annual audit be performed by an independent CPA firm. PSESD officials are responsible for monitoring required audits of subrecipients and ensuring appropriate corrective action is taken when instances of material noncompliance are noted. In addition to reviewing the required reports, PSESD officials monitoring includes reviews or site visits of the contractors.

The Department of Special Services awarded \$294,139 in federal funds to 23 subrecipients and one vendor in the fiscal year ended August 31, 1994. Of the 23 subrecipients who received financial assistance, 20 received less than \$25,000 of federal financial assistance. The remaining three were required to submit audit reports which complied with either OMB Circular A-128 or A-133. The director of Financial Services had received, but not reviewed the one required OMB Circular A-128 audit report. The director of Special Services had not received nor reviewed the two required OMB Circular A-133 audit reports.

The Department of Early Childhood Education awarded \$5,054,681 in federal funds to 21 subrecipients in fiscal year ended August 31, 1994. Of the 21 subrecipients who received financial assistance, 20 were required to submit audit reports which comply with OMB Circular A-128/A-133. The OMB Circular A-128 audits were required of 17 subrecipients. The director of Financial Services had received and reviewed the 17 OMB Circular A-128 audits from the subrecipients who received Head Start funds. The Director of Early Childhood Education had received and reviewed two of the remaining three audits required under OMB Circular A-133. As of February 1995, one subrecipient had not had an audit nor had PSESD officials required them to comply with this contractual requirement.

OMB Circular A-128, which is applicable to the PSESD, requires recipients of federal funds to establish subrecipient monitoring systems and states in part:

9. Subrecipients. State or local governments that receive Federal

financial assistance and provide \$25,000 or more of it in a fiscal year to a subrecipient shall:

- a. determine whether . . . subrecipients covered by Circular A-110 Uniform requirements for grants to universities, hospitals, and other nonprofit organizations, have met that [audit] requirement; (Note Circular A-110 was superseded by Circular A-133 effective April 1990)
- b. determine whether the subrecipient spent Federal assistance funds in accordance with applicable laws and regulations. This may be accomplished by reviewing an audit of the subrecipients made in accordance with this Circular, Circular A-110, or through other means (e.g., program review) if the subrecipient has not yet had such an audit;
- c. ensure that appropriate corrective action is taken within six months after receipt of the audit report in instances of noncompliance with Federal laws and regulations.

The contract between PSESD and Head Start subrecipients also states in part under Exhibit 1 General requirements, Part B Records and Documentation:

- 2) The [subrecipient] shall be responsible for any audit exceptions incurred by its own organization. An annual audit shall be required for all program funds awarded under this agreement. The audit shall be conducted by the Office of State Auditor, or an Independent Certified Public Accounting firm selected by the [subrecipient].
- 3) The audit shall be conducted in accordance with generally accepted government auditing standards covering financial audits; Office of Management and Budget Circular A-128 or A-110 as applicable; and all regulations, standards, policies, and procedures published by Region X HHS. The [subrecipient] shall supply PSESD with a copy of the annual audit including audit of Head Start operations upon request.

PSESD management believed their program reviews of subrecipients' provided sufficient and adequate monitoring. They did not fully understand the OMB Circular A-128/A-133 audit and monitoring requirements as it relates to subrecipients.

Without a review of the subrecipient fiscal and compliance audits performed in accordance with OMB Circular A-128 or A-133, PSESD officials have limited assurance that subrecipients administered federal funds in accordance with federal laws.

In addition, the PSESD violated a material compliance requirement of their federal grantors and allowed a breach of their contract with Highline Head Start Parent Organization by failing to obtain and review the contractually required subrecipient audit report. This noncompliance jeopardizes current and future federal funding.

We recommend PSESD management obtain subrecipient fiscal and compliance audits,

make a review of those audits, and seek corrective action where necessary.

We also recommend PSESD management comply with subaward contract provisions.